

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, July 31, 2009
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:35 AM, MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Connelly, Vice-chair
Mr. Chris Harris (via telephone)
Mr. Jim McLaughlin
Dr. Keith Meredith
Mr. Michael Townsend
Mr. Larry Trachtenberg
Mr. Steve Zeman

Absent: Mr. Jaime Gutierrez

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion and Appropriate Action Regarding the Presentation of the Government Finance Officers Association (GFOA) Award

Mr. Paul Matson, Director, stated that the ASRS received the Government Finance Officers Association (GFOA) Award for excellence in financial reporting for the June 30, 2008, Comprehensive Annual Financial Report (CAFR). Mr. Steve Zeman noted that this is the twentieth year in a row that the ASRS has received the award. Mr. Matson thanked Ms. Nancy Bennett, Assistant Director, Financial Services Division, for her efforts in completing the CAFR. Many other staff members were formally recognized by the Board and staff for their contributions.

3. Presentation, Discussion and Appropriate Action Regarding the PRIDE Award for Results

Mr. Matson recognized the Network Information Systems Exchange Team (NIS) team as the winners of the PRIDE Award for Results. The NIS team members were formally recognized by the Board and staff for their effort in ensuring a successful conversion from GroupWise to Microsoft Exchange and Microsoft Outlook.

4. Approval of the Minutes of the May 14 Special Session, the May 15, 2009 Regular Session and the June 30 Special Session of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the May 14 Special Session, the May 15, 2009 Regular Session and the June 30 Special Session of the ASRS Board.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5.A. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. Gerald Paulus

Mr. David Byers, Chair, said Mr. Paulus requested, via correspondence received by the ASRS on July 23, 2009, that the ASRS Board review his appeal at the August 2009 meeting rather than the July 2009 meeting. Mr. Tom McClory, Assistant Attorney General, noted statute requires that the ASRS Board must review the Recommended Decision at its July 2009 meeting to avoid the Office of Administrative Hearings certifying the Recommended Decision as final. However, Mr. Paulus' request can be accommodated. He said the ASRS Board could accept, reject or modify the Recommended Decision on July 31, 2009, and address Mr. Paulus' request as a Motion for Review of the ASRS Board's July 2009 decision to be discussed at the August 21, 2009 meeting.

Motion: Mr. Michael Townsend moved to accept the ruling of the Administrative Law Judge (ALJ) and allow Mr. Paulus to present at the next Board meeting.

Mr. McClory noted the ALJ recommendation contains an inaccurate dollar amount regarding Mr. Paulus' military differential gap pay.

Mr. Townsend withdrew his motion.

Motion: Mr. Townsend moved to treat Mr. Gerald Paulus' letter, dated July 10, 2009, as a request for review, AND grant his request for review to be discussed at the next Board Meeting, currently scheduled for August 21, 2009, AND accept the ruling of the Administrative Law Judge regarding Mr. Gerald Paulus, and correct the amount on page 3, line 8 of the Decision from \$11,244.46 to **\$11,038** in differential pay.

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5.B. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Patricia Miktus

Mr. McClory gave background regarding Ms. Patricia Miktus' appeal. Ms. Miktus feels time worked in the 1980s should be credited towards her retirement benefit. Mr. McClory said the ALJ rejected Ms. Miktus' request for two reasons: she was unable to substantiate she made contributions to the ASRS during the alleged employment, and statute does not allow for an appeal after 15 years have passed. Ms. Miktus brought her appeal to the ALJ more than 20 years after the alleged employment.

Ms. Miktus addressed the Board regarding her appeal. She has substantiated her employment, but not that she made contributions to the ASRS. The ASRS records show her contributions beginning on September 24, 1984. Due to the way calculations were made at the time, Ms. Miktus was credited back to July 1984. She asserts she should be credited for making contributions beginning in July 1983.

Mr. Byers said there are three possibilities: Ms. Miktus was not making contributions, the ASRS did not credit Ms. Miktus correctly with her contributions, or Ms. Miktus' employer did not give the

ASRS Ms. Miktus' contributions. He noted the law prevents the Board from taking action because more than 15 years have passed.

Mr. McClory said the ASRS must be fair to all members and not pay out benefits if there is no record of contributions having been received.

Mr. Byers said Ms. Miktus could reopen her appeal if she found information to show she made contributions during the time frame in question.

Motion: Mr. Zeman moved to accept the ruling of the Administrative Law Judge, denying Ms. Patricia Miktus' request for ASRS service credit for the time period March 1983 to June 1984

Mr. Larry Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the 2009 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs Division, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding 2009 ASRS legislation. Mr. Klein said the current special legislative session regarding the budget was still in progress. Ms. Sorensen said during the regular session, only one main piece of legislation passed that affects the ASRS. House Bill 2118 becomes effective on Sept. 30, 2009. Provisions of the new legislation include plan design, dual employment, return to work, dual membership, service purchase, employer administration, employer termination incentive programs, long term disability, and the retiree accumulated sick leave program.

7. Presentation, Discussion and Appropriate Action Regarding Potential Modifications to the ASRS Board Governance Policy Handbook

Mr. Matson addressed the Board regarding potential modifications to the ASRS Board Governance Policy Handbook. Currently, Trustees can attend Board Committee meetings where they are not members of the Committee, but they cannot participate in any discussion. The modifications would allow them to take part in dialogue. They would not be allowed to make motions or vote. The Committee meeting would become a dual Board and Committee meeting, but it would be conducted under the Committee's charter.

Mr. Matson said he intends to dual notice all Investment Committee (IC) meetings for the remainder of calendar year 2009, due to Trustee interest. Other Committees will be dual noticed on an ad hoc basis as interest is shown by Trustees. At the end of 2009, he will evaluate the situation.

Motion: Mr. Zeman moved to accept the recommended modifications to the ASRS Board Governance Policy Handbook.

Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

8. Director's Report

Mr. Matson addressed the Board regarding potential changes to the Governmental Accounting Standards Board (GASB) Statement Number 25 Financial Reporting for Defined Benefit Pension Plans, and Note Disclosures for Defined Contribution Plans, and Statement Number 27 Accounting for Pensions by State and Local Governmental Employers. In general, these modifications would treat defined benefit pension plans on more of a termination and partial immunization basis, rather than as going concerns. Some of the issues include: using a corporate yield curve as opposed to an asset allocation related liability discount rate; reduced investment return smoothing periods; and increased volatility in contribution rates. As a result, most public funds oppose these changes. Mr. Matson cosigned, along with many other state pension fund directors, a letter developed by the National Association of State Retirement Administrators (NASRA) indicating the ASRS does not support the modifications currently being proposed by GASB. Market liability groups promote the changes for several reasons, including promoting consistency between public and private defined benefit pension plans. If the ASRS began collecting contributions on this basis, contribution rates would likely spike in the short term.

Mr. Matson said it is expected that the draft Actuarial Study/Audit will be done in August.

Mr. Matson noted that, because of new legislation, the ASRS now has authorization to roll out new 403(b) and 457 defined contribution plan(s), and is determining how to proceed.

Mr. Matson stated the Arizona Department of Administration is to change health insurance vendors and premiums. This will affect retirees and the ASRS may see increased membership because of it. There should be no monetary impact, but there may be an impact in the area of customer service.

Mr. Matson pointed out the new Cash Flow Statement in the Director's Report and discussed issues related to securities lending, internal cash flow and external cash flow.

Mr. Matson thanked Mr. Townsend for his service as Board Chair during the past two years, as well as for his service as Vice-Chair for a year. Mr. Matson said Mr. Townsend's performance has been exemplary. He noted Mr. Townsend has acted honorably, ethically and diplomatically, and has been results-oriented. Mr. Matson presented Mr. Townsend with a PRIDE award on behalf of himself, Mr. Guarino, and all ASRS staff.

9. Possible Presentation Regarding Board Committee Updates

Mr. Zeman, Vice-Chair, External Affairs Committee (EAC), said the next EAC meeting will take place October 2, 2009.

Mr. Tom Connelly, Chair, Investment Committee (IC), stated there was an IC meeting July 20, and August 17. The IC hopes to schedule an additional meeting before the end of September. The IC is looking at asset allocation and new opportunistic investments.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place August 27, at which the Audit Plan for FY 2011 will be discussed. The OC met on July 30 and agreed on a Risk Assessment.

10. Board Requests for Agenda Items

There were no requests for agenda items.

11. Call to the Public

Mr. Ben Cox addressed the Board regarding his wife's LTD claim.

12. The next ASRS Regular Board meeting is scheduled for Friday, August 21, 2009, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 10:06 AM.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Hanneman, Secretary

Date

Paul Matson, Director

Date